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ABSTRACT

This paper provides an overview of financing patterns and mechanisms for public education and other services for children. It describes overall levels of support and significant trends over time in funding patterns. The paper also compares and contrasts the financing arrangements and trends in the different children's service sectors, highlighting the differences in revenue raising (and related governance) responsibilities between the different governmental levels. Issues to be considered in earmarking funds for children in the coming years are raised. The paper answers two principal questions: (1) How much is spent by governments on children's programs and what are the main components? and (2) Where does the revenue for these programs come from? Government-financed services only are considered; private programs are ignored. The paper summarizes that funding for children's programs may come from either general or earmarked sources. Most of it is from general taxes. Earmarking may have more potential as a device for increasing spending for children's programs other than education, particularly those with relatively small budgets. The potential for increased revenue is inextricably linked to how well programs operate. Because intergovernmental competition constrains the ability to raise taxes, it is desirable for state and local governments to receive more federal aid. Seven tables are included. The Finance Project and its available resources are included. (LMI)

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SPENDING AND REVENUE FOR CHILDREN'S PROGRAMS

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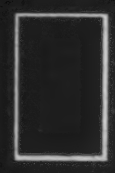

THE FINANCE PROJECT

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SPENDING AND REVENUE FOR CHILDREN'S PROGRAMS

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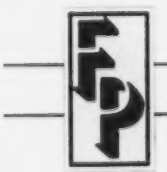

THE FINANCE PROJECT

PREFACE

Public financing for education and an array of other children's services has become a topic of significant interest and political concern. Growing skepticism among a critical mass of American voters and taxpayers has fueled doubts about the ability of government to solve social problems and provide basic supports and services that enhance the quality of life in their communities. Many believe government is too big; it's too expensive; and it doesn't work very well. Despite steadily increasing public expenditures for health, education, welfare, human services, and public safety over the past two decades, seemingly intractable problems persist. Nearly a quarter of U.S. children are poor and live in families and communities that are unable to meet their basic needs. Schools have become increasingly expensive. But student achievement hasn't matched the rising costs, and drop-out rates remain unacceptably high. Health care costs continue to go up. Yet, many Americans can't get the services they need, and with each passing year their health care dollars buy less. Criminal justice demands a dramatically increasing share of public dollars--for police officers and judges and jails--but neighborhood streets aren't safer.

Voters have spoken clearly. They want more for their money. They have called for more and better services, but they also have demanded balanced budgets and cuts in income and property taxes. In this time of big public deficits, they want government at all levels to operate more effectively and efficiently. They also want it to invest wisely and live within its means.

Across the country, there is mounting evidence of efforts to reform and restructure education and other community supports and services in order to improve the lives and future prospects of children and their families. Critical to the success of these initiatives are the ways in which they are financed. How revenues are generated and how funds are channeled to schools, human service agencies, and community development initiatives influences what programs and services are available. Financing determines how services are provided and who benefits from them. It also affects how state and local officials define investment and program priorities, and it creates incentives that guide how educators, other service providers, and community volunteers do their jobs. For these reasons, financing fundamentally affects how responsive programs and institutions are to the needs of the people and communities they are in business to serve.

In recent years, several blue ribbon commissions and national task forces have presented ambitious prescriptions for reforming and restructuring the nation's education, health, and human service systems in order to improve outcomes for children. While some have argued that public financing and related structural and administrative issues are critical to efforts to foster children's healthy development and school success, none has been framed for the specific purpose of inventively reconceptualizing public financing. Indeed, many of the most thorough and thoughtful reports have called for an overlay of new funds, but have neglected to provide cogent analyses of effective financing strategies, the costs of converting to these approaches, and the potential beneficial outcomes that might accrue from addressing financing reform as an integral aspect of program reform.

In addition, the past several years have witnessed a burgeoning of experimental efforts by mayors and city managers, governors and state agency directors, legislators and council members, program managers and school officials to make government work better and more efficiently. They have been enhanced by the work of people outside of government, including foundation executives, business and labor leaders, community organizers, and academic scholars. Some are creating new ways to raise revenues, manage schools, deliver human services, and spur community economic development. Others are designing new public governance and budgeting systems. Still others are developing and testing new approaches to more directly involve citizens in setting public priorities and maintaining accountability for public expenditures. Taken together, these efforts suggest the nascent strands of new and improved public financing strategies.

Against this backdrop, a consortium of national foundations established The Finance Project to improve the effectiveness, efficiency, and equity of public financing for education and an array of other community supports and services for children and their families. Over a three-year period that began in January 1994, The Finance Project is conducting an ambitious agenda of policy research and development activities, as well as policymaker forums and public education. The aim is to increase knowledge and strengthen the capability of governments at all levels to implement strategies for generating and investing public resources that more closely match public priorities and more effectively support improved education and community systems.

As a part of its work, The Finance Project produces a series of working papers on salient issues related to financing for education and other children's services. Some are developed by project staff; others are the products of efforts by outside researchers and analysts. Many are works in progress that will be revised and updated as new information becomes available. They reflect the views and interpretations of the authors. By making them available to a wide audience our intent is to stimulate new thinking and induce a variety of public jurisdictions, private organizations, and individuals to examine the ideas and findings they present and use them to advance their own efforts to improve public financing strategies.

This paper, *Spending and Revenue for Children's Programs*, was prepared by Steven D. Gold and Deborah Ellwood of the Center for the Study of the States, which is based in the Nelson A. Rockefeller Institute of Government at the State University of New York at Albany. It was presented at the Roundtable on Financing for Education and Other Services for School-Age Children, convened by The Finance Project, October 12-14, 1994. It provides an overview of financing patterns and mechanisms for public education and other services for children. It raises a number of issues that should be especially considered by those contemplating strategies to earmark funds for children in the coming several years. And finally, the paper highlights several priorities for future research and analysis to help guide decisions concerning public funding for education and other children's services.

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Executive Director

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Steven Gold is Director of the Center for the Study of the States, which is based in the Nelson A. Rockefeller Institute of Government at the State University of New York at Albany. Deborah Ellwood is a Senior Researcher at the Center.

This paper provides an overview of the current revenue streams supporting services for children in the education and social service sectors, the overall levels of such support and significant trends over time in funding patterns. It compares and contrasts the financing arrangements and trends in the different children's service sectors, particularly highlighting the differences in revenue-raising (and related governance) responsibilities between the different governmental levels.

There are vast gaps in the information available to fulfill this assignment. Therefore, we will not only summarize what is known but also highlight some of the key areas where additional research is needed.

This paper answers two principal questions: (1) How much is spent by governments on children's programs and what are the main components? and (2) Where does the revenue for these programs come from? It concludes with a brief discussion of some of the main areas needing research to improve understanding of how children's programs are financed.

We have limited the discussion in two ways. First, we have considered only government-financed services; private programs were ignored. Second, we have not tried to distinguish among children's social services according to the age of the recipients. The financing issues are essentially the same whether the children are school age or younger.

LEVEL AND COMPOSITION OF SPENDING FOR CHILDREN

Two facts stand out:

(1) Spending on elementary/secondary schools dwarfs spending for all other children's programs.
(2) State and local governments provide the lion's share of governmental spending for children because of their dominance in financing schools.

Elementary/Secondary Education

Expenditures for public elementary/secondary schools in 1992-1993 were an estimated $253.8 billion. This consists of $226.7 billion for current expenditures and approximately $27.1 billion for capital spending and interest on debt.[1]

Approximately equal amounts of revenue were derived from state and local sources. According to the National Education Association (NEA), states provided $115.2 billion,

[1] The estimate for current spending is from *Digest of Education Statistics: 1993*, p. 155. The latest figure for capital spending and interest on debt was for 1990-91 (p. 157). We assumed that spending in these areas grew at the same rate as increases in current spending. National Education Association data confirms our estimate; NEA originally estimated that total spending was $253.4 billion in 1992-1993, *Estimates of School Statistics, 1992-1993*, p. 23. This estimate was subsequently reduced to $251.7 billion.

localities and other nonfederal sources provided $114.1 billion, and the federal government provided $17.0 billion.[2]

The sources of school revenue have fluctuated over time, reflecting the vicissitudes of federal and state policies (Table 1). The federal share peaked at 9.2 percent in 1979-1980 and bottomed out in the early 1990s at 6.3 percent, before rising to 7.0 percent in 1993-1994. The state share changed in response to state fiscal conditions. First, it fell from 49.1 percent in 1979-1980 to 47.7 percent in 1982-1983 as state budgets were depressed by the weak national economy.[3] Then it rebounded to 49.8 percent in 1986-1987 before slipping back to 45.7 percent in 1993-1994. Meanwhile, the local share of school revenue reached a nadir in 1979-1980 at 41.7 percent and then climbed to 47.3 percent in 1993-1994, with a temporary downtrend in the mid-1980s when state aid was rising sharply.

Education spending has risen substantially over time. According to Allan Odden's calculations, real per pupil spending increased 69 percent in the 1960s, 22 percent in the 1970s, and 48 percent in the 1980s. Even in the 1990s it has continued to creep up, but at a much slower pace than in the past. Between 1989-1990 and 1993-1994, the real increase was an estimated 3.2 percent.[4]

The relatively small increases in school spending in the last several years reflect the distressed condition of state budgets caused by the 1990-1991 recession and its aftermath as well as stiff competition for state funds from other programs, particularly Medicaid and corrections.[5]

The national trends sketched above obscure the fact that school finance systems vary greatly from one state to another. Table 2 illustrates some of the important differences. In 1991-1992, school revenue per pupil averaged $5,583 nationally, but it was only 62 percent of that level in Alabama while it was 67 percent higher in New Jersey.[6]

The sources of revenue also varied widely from state to state in 1991-1992:

- Federal aid provided 17.2 percent of the revenue in Mississippi but only 2.9 percent in New Hampshire.

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[2] Schools also received funds from the sales of bonds and real property and equipment, loans, and proceeds for insurance adjustments. These provided $16.8 billion in the 1992-1993 school year, according to NEA.

[3] The publication of *A Nation at Risk* in early 1983 coincided with a turning point in state finances. Most states raised taxes in late 1982 or early 1983 in order to keep their budgets in balance, and their revenues were also bolstered by the economic recovery that began during the winter of 1982-83. State school aid rose significantly in the 1984-1985 school year in response to both healthy revenue growth and the spotlight put on schools by the report.

[4] Allan Odden, *CPRE Finance Briefs* (May 1994).

[5] Steven D. Gold, "The State Budget Context: How Medicaid Fits In," in Diane Rowland et al eds., *Medicaid Financing Crisis* (Washington, D.C.: American Association for the Advancement of Science, 1993), pp. 133-154.

[6] Some of the difference among states is attributable to variations in price levels. Howard Nelson of the American Federation of Teachers has developed indexes that attempt to measure that variation. But even adjusting for the cost of providing services, large spending differences among states remain. See, for example, his report, *Survey and Analysis of Salary Trends 1990*.

- The state government provided virtually all nonfederal revenue in Hawaii, where there are no local school districts, but the state accounted for only 8.2 percent of revenue in New Hampshire (where the lack of either a broad-based income tax or a general sales tax severely limits the state's ability to fund schools).
- States accounted for a majority of nonfederal revenue in the Southeast, Southwest, Rocky Mountains, and Far West, but local governments raised more money than the states for schools in the other regions.

Federal Spending

Two sources provide measures of federal spending for children--Jule Sugarman's paper prepared for the first Finance Project Roundtable and the *Green Book* published by the U.S. House Ways and Means Committee.[7] As Table 3 shows, they differ substantially in terms of which programs they include. They also treat programs differently when some but not all benefits are for children. (In addition, the spending figures for particular programs differ somewhat because Sugarman reports obligations, whereas the *Green Book* focuses on outlays.)

Sugarman and the *Green Book* define spending on children quite broadly, counting all dollars that are spent on children even if the program is not specifically designed for children. They include both direct spending and tax expenditures, such as the dependent care tax credit. For programs where a significant portion of the spending is for adults--such as Medicaid--they attempt to prorate a share of the total spending for children. When the portion spent on children is unknown, such as substance abuse prevention and the tax exclusions for employer contributions for medical insurance, Sugarman includes spending for the whole program, but the *Green Book* omits the program entirely. In addition, Sugarman adds spending on programs for dependent children over age 18, such as educational loans. The *Green Book* does not. The *Green Book* includes several programs that Sugarman does not, such as housing assistance, low income energy assistance, Social Security, Supplemental Security Income (SSI), veterans' benefits, and the Earned Income Tax Credit (EITC), but they are prorated for the share spent only on children. In sum, the *Green Book* counts spending on any program that benefits children if data exist on the portion spent on children.* Sugarman includes spending on most programs that benefit children (including adult children) even if he is unable to prorate the share spent on children.

Sugarman includes obligations for all programs benefiting children for which spending exceeds $100 million in 1993, 1994, and 1995. Although he includes many programs and tax expenditures that benefit children, he prorates only Medicaid and the Social Services Block Grant (Title XX) for their children's spending. Excluding those programs and tax expenditures that Sugarman is unable to prorate but including portions of Medicaid and Title XX, total spending for children in fiscal year (FY) 1993 was $78.1 billion. This includes $24.1

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[7] Jule M. Sugarman, *Expenditures for Children: Existing Data and Perspectives on Budgeting*; U. S. House of Representatives, Committee on Ways and Means, *Overview of Entitlement Programs: The 1993 Green Book*.

* The single exception appears to be spending on housing, which includes spending for adults as well as children.

billion for education.[9] Excluding education, total spending on children was $54.0 billion, including $17.8 billion for health, $14.7 billion for income support and employment assistance, $9.7 billion for nutrition, and $7.7 billion for child care and child development. The largest individual programs were $14.9 billion for Medicaid[10] and $12.2 billion for Aid to Families with Dependent Children (AFDC) family support payments. Of the $78.1 billion, all but $3.2 billion was direct spending rather than tax expenditures. The $3.2 billion is primarily for the dependent care credit.[11]

The *Green Book*'s total is different than Sugarman's. Although the *Green Book* includes spending on many programs that Sugarman does not and is able to prorate spending for children on more programs than Sugarman, the *Green Book*'s total spending for children is less than the amount given by Sugarman. Including only the child portion of specific programs and excluding spending on housing--which appears to include spending on adults as well as children--the *Green Book* gives a total of $61.9 billion spent on children in fiscal year 1990. Education represented $8.3 billion, income support and employment assistance accounted for $24.7 billion, health represented $8.5 billion, and nutrition and child care/child development accounted for $14.4 billion and $2.5 billion, respectively. See Table 3 for a list of which programs are included in each tally.

The *Green Book* indicates that federal spending for children is increasing rapidly. Excluding education and housing programs, spending is projected to grow from $53.6 billion in 1990 to $94.9 billion in 1995, a 77 percent increase.

The decision about how to define programs benefiting children is inherently somewhat arbitrary. A limited measure of spending would consider only programs designed specifically for children. This would exclude $69.5 billion from the *Green Book*'s 1995 spending--$17.1 billion for Medicaid and Medicare; $11.2 billion for food stamps; $16.1 billion for Social Security, SSI, and veteran's compensation; $14.7 billion for the EITC; and $10.4 billion for housing programs. Most of the remainder is for education ($14.3 billion) and AFDC ($9.4 billion). Aside from those programs, spending in 1995 is projected to be $21.2 billion, nearly half of which is for nutrition programs.

The appropriate definition depends to some extent on the purpose of the analysis. In any case, what is important is not the grand total for children's spending but rather what goes into its components and how they compare in magnitude.

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[9] The National Education Association estimate of federal school aid was $17.0 billion. The difference is mainly due to Sugarman's inclusion of $7.9 billion of student financial assistance. This money is apparently for higher education and hence should be excluded from this study, which only examines spending for children 18 years and younger.

[10] Sugarman estimated that 20.1 percent of Medicaid was for children, but that figure appears to be too high. According to the *Medicaid Source Book*, only 15.1 percent of benefits went to children in 1991. This contrasts with the fact that 46 percent of beneficiaries were children in that year. The average cost of serving children is much lower than it is for senior citizens. Congressional Research Service, *Medicaid Source Book (A 1993 Update)*, pp. 154-161.

[11] A portion of this credit is for care of senior citizens or disabled adults, but most of it is for children.

State and Local Spending

Sugarman observes that he knows of no comprehensive data on state and local non-education spending for children. None exists. If the nation is going to develop rational policies to make the best use of resources, and if it wants to monitor efforts to improve services, this kind of information must be developed.

We have used two approaches to develop some suggestive measures of the magnitude of state spending. First, some federal programs require states to provide matching funds to supplement federal spending. For example, the state match for AFDC in 1993 was $11.4 billion, and the corresponding figure for the portion of Medicaid attributable to children was $6.8 billion.[12] The sum of these two programs is $18.2 billion, and it does not include some other programs for which states must contribute matching funds, such as foster care, school lunches, and the maternal and child health block grant.

A second approach to quantifying state spending on children's programs is to draw on analyses prepared by children's advocacy groups in California and Kentucky. While these states are not necessarily representative and the methodologies used in these studies need to be refined, they provide useful suggestive indications about the magnitude of state spending.

In 1993, California spent considerably more than Kentucky on children's programs, even taking into account the sizes of the states. California spent $838 per capita and $3,044 per child, and Kentucky spent $518 per capita and $2,021 per child. In both cases, education accounted for more than three-quarters of the total.

In California, total state spending on children in FY93 amounted to $26.2 billion.[13] This is significantly more than our estimate of approximately $9 billion in total federal spending on children in California.[14] However, as Table 4 shows, the majority of this--$20.7 billion or 79 percent of the total--is spending on education. Nearly three-quarters of the rest of the spending is for children's health programs and income support programs such as AFDC. Income support programs account for $2.9 billion (11 percent of the total) and children's health programs account for another $1.1 billion (4 percent). California's heavily state-supported child care and child development programs consume only two percent of state spending on children.

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[12] For AFDC, *Green Book*, p. 679. For Medicaid, National Association of State Budget Officers, *1993 Expenditure Report*, p. 85, with adjustment for administrative costs based on Congressional Research Service, *Medicaid Source Book (A 1993 Update)*, p. 471. There are two problems with this Medicaid estimate. First, the 15.1% proration is a national average representing the weighted average of the 50 states, and it may not be precisely appropriate for the state share because matching rates may be correlated with the share of Medicaid costs attributable to children. Second, some of the state funds do not represent real spending but rather intergovernmental transfers from government hospitals; such spending does not come from state tax revenues.

[13] This information is gathered from a summary of the California state budget, *The California Children's Budget, 1994-1995*, published by the Children's Advocacy Institute. We adjusted figures from that source to reflect Health Care Financing Agency's estimate that 15% of Medicaid spending is for children. The Children's Advocacy Institute used a considerably higher estimate.

[14] This estimate is based on a preliminary analysis by Ellwood and Gold of federal spending on children in the states.

California has many programs, particularly in the areas of child development and health, that were initiated by the state and funded almost entirely by state dollars. Excluding education, total spending on these state-only programs amounted to approximately $1 billion in FY93--less than four percent of total state spending on children.

Kentucky state spending follows similar trends.[15] As Table 4 shows, in FY93 nearly 85 percent of the total $2.0 billion spent by the state on children was for education.[16] Health, child care, and income support programs make up most of the rest, consuming six, four, and three percent respectively. Excluding education, total spending on state-only programs for children in Kentucky amounted to approximately $50 million in FY93. This constitutes less than three percent of total state spending on children.

Another useful examination of state spending on children is to look at the types of children's programs that are funded. In particular, a comparison of the amount of spending on preventive programs versus remedial programs (such as corrections) can tell us a great deal about priorities for state spending. Child advocates in Iowa have already produced such a comparison, and organizations in other states are attempting to develop a similar analysis.

Unfortunately, even less is known about local spending on children's programs than on state spending. In 11 states, local governments must contribute to the nonfederal cost of AFDC benefits, and in 14 states they pay part of the cost of Medicaid benefits. In some states where benefits are paid by the state government, local governments often are responsible for a portion or all administrative costs of these programs (for AFDC, 18 states).[17]

It is necessary to consider not only direct spending but also tax expenditures for children. Most federal tax expenditures are mirrored in state tax systems because nearly all states tie their personal income taxes in some manner to the federal income tax. Because state tax rates are much lower than federal tax rates, the cost of the state tax expenditures is correspondingly lower. As a rule of thumb, on the average, state tax expenditures cost about 20 percent as much as federal tax expenditures because state tax rates are about 20 percent of federal rates.[18]

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[15] This information is gathered from a summary of the Kentucky state budget, *Children and Dollars: Budget Trends Affecting Kentucky's Children and Their Families, 1994 Update*, published by Kentucky Youth Advocates.

[16] It is important to note that there is very little local spending on education in Kentucky so the proportion spent by the state on education may be somewhat higher than those states with large local spending on education.

[17] *Green Book*, pp. 676-677. *Medicaid Source Book*, pp. 496-497.

[18] The cost is higher in states with high income taxes like New York and Oregon. Of course, there is no state cost if it does not have an income tax. The relationship between federal and state tax expenditures also depends on how states conform to the federal tax code. Nearly all states follow the federal definition of income, so the exclusion of employer-provided child care is a tax expenditure in all states with an income tax. But states do not automatically adopt federal tax credits, so the dependent care credit is not as widespread at the state level.

Summary

In 1993, spending for elementary/secondary education is estimated to have been $253.8 billion, of which states provided $115.2 billion; localities and other nonfederal sources $144.1 billion; and the federal government $17.0 billion.

Federal spending other than for education was $54.0 billion, according to Sugarman's methodology. No comprehensive data are available on state and local spending other than for education. State-local spending for AFDC and the part of Medicaid for children was an estimated $18.2 billion.

To summarize some of the major findings from this review:

- Most spending for children is for education, and state and local governments fund most of it.
- Excluding education, the federal government apparently spends more for children's programs than state and local governments.
- State and local governments spend more on children's programs than the federal government because of their support of education.

These conclusions are tentative because of incomplete data about state and local spending other than for education.

REVENUE ANALYSIS: WHERE THE MONEY FOR CHILDREN'S PROGRAMS COMES FROM

This analysis will concentrate on state and local revenue because discussions of the federal tax system are widely available.[19] Revenue can come either from general sources or from dedicated revenues (i.e., through earmarking).

Elementary/Secondary Schools

As discussed above, revenue is about evenly divided between state and local sources nationally, although the balance between them varies considerably from one state to another.

State Revenue

The mainstays of state tax systems are the general sales tax and the personal income tax, which respectively raised 32.8 percent and 31.9 percent of tax revenue in 1992. The level of these taxes relative to personal income varies considerably across the states (Table 5).

Among the 45 states that impose a sales tax, 25 exempt food, 29 exempt residential utilities, and six exempt clothing. Most states also exempt most services. But the extent of service taxation varies considerably. According to a 1992 survey by the Federation of Tax Administrators, Nevada taxed only 11 services whereas Hawaii and New Mexico taxed 155 services.[20] Such differences in the base of the sales tax have important implications for the amount of revenue produced and for the regressivity, stability, and growth potential of the

[19] See, e.g., Eugene Steuerle, *The Tax Decade* (Washington, D.C.: Urban Institute, 1992).

[20] Federation of Tax Administrators, *Sales Taxation of Services* (Washington, D.C.: 1992).

tax. Exempting services tends to undermine the growth of revenue because demand for services is growing considerably faster than demand for goods.

The structure of personal income taxes varies considerably among the 41 states that impose them.[21] Many of these taxes are not particularly progressive because seven states have flat taxes and in 12 others the highest tax rate takes effect at a taxable income of $25,000 or less.

Between 1980 and 1992, state tax revenue remained constant at about 6.8 percent of personal income, but its composition changed somewhat (Table 6). The personal income tax rose considerably and the sales tax increased moderately in relation to personal income. But excise taxes, such as those on tobacco and alcoholic beverages, fell sharply as a proportion of personal income. These changes reflect the interaction of legislated and economic changes and the characteristics of each tax. Revenue from tobacco and alcoholic beverage taxes tends to grow slowly because demand for those products is not increasing much or is actually decreasing; the taxes are usually expressed in terms of quantities (number of packs or liters) rather than values, so they do not reflect price increases. For example, if the price of cigarettes increases ten percent and the quantity sold falls one percent, state cigarette tax revenue will decrease one percent.

Economists refer to the growth of revenue from a tax in response to a change in personal income as its elasticity. If revenue increases 12 percent when personal income rises ten percent, the elasticity of the tax is 1.2. If it increases seven percent when personal income grows ten percent, its elasticity its 0.7. Excise taxes such as the cigarette tax have an elasticity considerably less than one, the personal income tax has an elasticity above one, and the elasticity of the sales tax is usually somewhat less than one. The elasticity of the tax system probably has an impact on the level and growth of state spending because, when taxes are elastic (greater than one), revenue flows automatically to the state treasury as incomes rise without the need to increase tax rates. If taxes are inelastic, it is necessary to raise tax rates to make revenue growth keep up with the expansion of the economy.[22]

Aside from taxes, one of the other sources of state revenue is lotteries. Although they are sometimes described as bringing in $25 billion annually, most of that amount goes for prizes and administration. Net revenue to state coffers is only about $9 billion. Although that is a substantial amount, it is relatively insignificant in relation to state tax revenue, which was $328 billion in 1992.

Local Revenue

The property tax is the main source of local school revenue. In 1991, 97.4 percent of the tax revenue raised by independent school districts was from property tax. The property tax is less prominent in raising revenue for cities and counties, accounting for 52.1 percent and 74.0

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[21] This tabulation does not count the taxes in New Hampshire and Tennessee that apply only to dividends and/or interest payments.

[22] If elasticity is less than one, the tax is characterized as inelastic. The theoretical connection between elasticity and spending has not been strongly confirmed by the few empirical studies that have examined it.

percent of their tax revenue, respectively. Those figures are heavily influenced by large cities and counties, which rely much more on sales and payroll taxes than smaller cities and counties.

The property tax has some significant shortcomings. It is often administered poorly, with assessments not keeping up with changes in the market value of property. It bears heavily on senior citizens and in some cases is regressive, although the degree of its regressivity is often exaggerated.[23] On the other hand, the property tax also has some important advantages. For example, its revenue is stable, and property is relatively immobile, so differences in local tax rates do not cause as much relocation as similar differentials in income or sales taxes would.

The property tax is often chastised for causing large inequalities in school resources, but this criticism is misguided. The problem is overreliance on local taxes, not the property tax *per se*. If another local tax were used, such as income or sales tax, differentials would tend to be even greater.

States can mitigate the problems caused by the property tax by assuring that local assessments are relatively up-to-date and accurate and by alleviating the regressivity of the tax by establishing a state-funded circuitbreaker.[24]

Earlier this year Michigan reformed its school finance system, substituting state sales tax revenue for part of the local property tax. Two points are important in understanding what Michigan did. First, it did not completely eliminate the school property tax.[25] Second, Michigan merely did what many other states had done before. Before the 1994 reform, Michigan had relatively high property taxes and a low sales tax. After the reform, these taxes are close to national averages.[26]

Table 7 shows the fluctuations in both state and local tax revenue per $100 of personal income from 1970 to 1992. From 1972 to 1982, local tax revenue fell sharply as a proportion of personal income and in relation to state tax revenue. After 1982 it rebounded, and since 1985 it has consistently been rising faster than state tax revenue.

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[23] The property tax on residential property tends to represent a relatively large share of current income for low-income households because housing expenditures grow more slowly than household income rises. However, much of the tax on business property is borne by owners of capital, who tend to be wealthy. If income is viewed over a longer period than a single year, the degree of regressivity is reduced.

[24] A circuitbreaker is a state-financed tax credit for which benefits vary directly with residential property tax payments and inversely with household income. Steven D. Gold, *Reforming State-Local Relations: A Practical Guide* (Denver: National Conference of State Legislatures, 1989).

[25] Confusion exists because in July 1993 legislation was passed to completely eliminate the school property tax without providing substitute revenue. When the legislature finally developed alternative finance programs in December 1993, they retained part of the property tax because otherwise it would have been necessary to raise other taxes more than was considered desirable. In March 1994, the public voted on the plans developed in December, choosing the plan that relied on the sales tax rather than the income tax.

[26] Steven D. Gold, *Tax Options for States Needing More School Revenue* (Washington, D.C.: National Education Association, 1994).

State and local taxes have grown approximately in line with the economy since 1970. The average of their revenue in 1991 and 1992 relative to personal income is virtually the same as it was in 1970 and 1971. An increasing share of this revenue is being devoted to Medicaid and corrections programs. Higher education and income maintenance programs have received a shrinking share, while the proportion going to elementary/secondary education has been relatively steady. No information is available about the proportion of spending for children's programs other than elementary/secondary education.[27]

State and local governments are obtaining an increasing proportion of their revenue from user charges, so the information on tax levels in Table 7 understates the extent to which their revenue has increased. (The most important user charge for states is college tuition.) State and local revenue from user charges per $100 of personal income rose from $1.94 in 1970 to $2.19 in 1980 to $2.84 in 1992. For states alone, the increase was from $0.80 in 1970 to $0.82 in 1980 to $1.10 in 1992.[28]

State Aid

The link between state and local taxes is made through state aid. Every state has a unique set of programs for providing assistance to local governments. A well-designed aid formula can reduce fiscal disparities among school districts while retaining the advantages of local control of the schools.[29]

State aid is the largest program in the state budget of most states, often accounting for approximately one-third of general fund spending. Differences in the growth rate of state aid since 1983 have been strongly influenced by the health of state economies. There is some evidence that increases in Medicaid spending reduced the growth of state aid.[30]

Earmarking

Funding for children's programs can come from either general revenue or an earmarked source. The extent to which earmarking actually increases resources for these programs is variable. The potential effectiveness of earmarking differs for elementary/secondary

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[27] Steven D. Gold, "One Approach to Tracking State and Local Health Spending," *Health Affairs* (Winter 1992), p. 142.

[28] The figures on user charge revenue are from the U.S. Census Bureau. Some analysts focus on own source general revenue, which has risen even faster than taxes and charges. The difference is that own source revenue includes miscellaneous revenue. The authors prefer to exclude miscellaneous revenue because most of it is interest payments received, which have risen sharply in tandem with governmental interest outlays as programs like mortgage and economic development subsidies expanded. Most of this interest revenue is not available for general programs.

[29] For a description of the formulas used for distributing school aid in each state, see Steven D. Gold, et al, eds., *Public School Finance Systems of the United States and Canada, 1990-1991* (Albany: Nelson A. Rockefeller Institute of Government, 1992). An updated version of this report for the 1993-94 school year will be published in 1995.

[30] James W. Fossett and James H. Wyckoff, "How Medicaid Growth Crowded Out State Spending in Education?", forthcoming in *Journal of Health Policy, Politics and Law.*

education and other children's programs. We shall first discuss the extent of earmarking and then its theoretical effects.

Extent of Earmarking

As of 1988, a survey by the National Conference of State Legislatures found that at least 28 states earmarked at least one tax for education.[31] The taxes most frequently earmarked were the general sales tax (11 states), the severance tax (seven states), and tobacco taxes (seven states). Other taxes earmarked in at least four states were those on property (five states), alcoholic beverages (four states), personal income (four states), public utilities (four states), corporate income (four states), and insurance premiums (four states).[32]

In addition, 12 states earmark lottery revenue for education (California, Florida, Idaho, Illinois, Indiana, Michigan, Montana, New Hampshire, New Jersey, New York, Ohio, and West Virginia). In California and New Jersey some of the revenue is shared with higher education, but usually it is solely for elementary and secondary schools.

Earmarking is also widespread for other children's programs, although no comprehensive surveys are available to document its extent. The most common kind of earmarking is children's trust funds, which usually obtain revenue from marriage license fees. Income tax checkoffs are another example of earmarking for children's programs.

Effects of Earmarking[33]

All money is green. That pithy statement gets at one of the main truths about the impact of earmarking. A naive view would be that a $100 million tax increase permanently earmarked for schools will result in education receiving $100 million more in state support than it would have otherwise, on a continuing basis. Anyone adhering to that view would almost certainly be wrong.

Consider a hypothetical $100 million tax increase that is earmarked for Program X, which is not necessarily education. There are three possible scenarios:

(1) Program X would not have received any money without the earmarked funds.

(2) Program X would have received $60 million without the earmarked funds.

(3) Program X would have received $1 billion without the earmarked funds.

In the first scenario, Program X clearly benefits by the full amount of the earmarking, since its budget goes from zero to $100 million. In the second scenario, Program X benefits by

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[31] Martha A. Fabricius and Ronald K. Snell, *Earmarking State Taxes*, 2nd ed. (Denver: National Conference of State Legislatures, 1990). Findings were summarized in "Education Earmarking Likely to Continue," *The Fiscal Letter* (July/August 1990), pp. 2-4.

[32] As discussed in the text, the mainstays of state tax systems are the personal income, general sales, and corporation income taxes. Nine states earmarked at least a quarter of one of these taxes for education: *General sales*: Alabama (89%), Michigan (60%), Nevada (26%), South Carolina (100%), Tennessee (65%), and Virginia (33%); *Personal income*: Alabama (97%), New Jersey (100%, including some for property tax relief), Montana (31%), and Utah (100%); *Corporation income*: Alabama (100%) and Utah (100%).

[33] This analysis is drawn from Steven D. Gold, Brenda Erickson, and Michelle Kissell, *Earmarking State Taxes* (Denver: National Conference of State Legislatures, 1986).

at least $40 million, since that is the excess of the earmarked funds over what it would otherwise have received. In the third scenario, there is no assurance that Program X will benefit at all. Policymakers could subtract $100 million from the allocation to Program X from general revenue, leaving Program X with no more money than it would have had if there were no earmarking.

Elementary/secondary education is virtually always in a situation like the third scenario. States normally provide so much aid to schools in any case that earmarked revenue is almost certain to be far less than the schools would otherwise receive.[34] Viewed narrowly, there is no guarantee that earmarking boosts the aid for schools under most circumstances. Indeed, much of the money raised on behalf of education has been devoted to property tax relief.

Other children's programs are in a different situation. Because their budget is much smaller than that of elementary/secondary education, it is more conceivable that the amount of money earmarked will exceed what they would otherwise have received. However, the revenue raised by existing children's trust funds and income tax checkoffs is so little that they are of only marginal value in enhancing funding of children's services.

There are at least seven more points to be made that expand this analysis of earmarking:

(1) Earmarking often makes it feasible to raise total state revenue to a higher level than it would have been otherwise because citizens are more willing to support tax increases or lotteries if they approve of the intended use of the revenue they produce. Because elementary/secondary education is such a large part of state budgets, it normally receives a significant share of incremental state revenue. Even though earmarking does not guarantee that schools receive all the benefit from a tax increase or lottery, they usually receive a sizable share of it. In other words, earmarking expands the pie, and schools get a big slice.

(2) When first adopted, an earmarking provision may cause spending for the designated program to increase because the publicity attendant on enactment of the earmarking, but over time the earmarked revenue may have less effect on spending levels as the spotlight moves to other areas. Because inflation normally causes spending to rise year after year, it is difficult to trace the effects of earmarking in the years after it is first implemented.

(3) Maintenance of effort requirements supposedly stipulate that a state continues to spend whatever it was spending before earmarking began. Those requirements are usually ineffective because inflation leads to higher outlays over time, so there is no way of knowing whether spending is any higher because of earmarking than it would have been otherwise.

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[34] Alabama and New Hampshire are possible exceptions. In Alabama, schools receive 90% of the sales tax and 100% of the personal and corporation income taxes. This high degree of earmarking may produce more than education would otherwise receive. In New Hampshire, on the other hand, state school aid is so low that if a new broad-based tax were enacted, it would easily be possible for it to provide more than local schools currently receive in state aid.

(4) Earmarking may be viewed as committing the state to increase spending in a certain area; therefore, it could strengthen the arguments of advocates even though it is technically possible to avoid such action.

(5) Earmarking in some cases may actually decrease total spending for a program because it creates a false impression that it is well funded. It is said, for example, that "schools don't need more money because they're getting so much from the lottery." The public often has an exaggerated impression of the relative size of the revenue generated by lotteries.

(6) The skeptical conclusions about the efficacy of earmarking do not apply to measures such as California's Proposition 98, which earmarks a proportion of total state general revenue for schools and requires that education receives a significant share of revenue increases. It is much more difficult to subvert a provision guaranteeing a share of total state revenue than one that earmarks a single tax.[11]

(7) Much depends on the characteristics of the revenue source that is earmarked. It is much better to earmark an elastic tax than an inelastic tax or fee except during recessions. The revenue from the tax should grow at least as fast as the need for the service that receives the earmarked funds.

To summarize, the effects of earmarking are complex. It is unlikely to increase the share of the budget going to education over the long run, but it may boost the priority of education spending for a few years immediately after it is enacted. Moreover, earmarking often increases the total resources available to state government because it makes it more feasible to increase tax rates. Thus, even though earmarking may not affect education's share of the state budget, schools benefit because the budget has expanded. When the state budget grows, education is usually a major beneficiary.

As a political strategy, it often makes sense to earmark revenue if that increases the political feasibility of increasing taxes. But it should be understood that normally education will not really benefit by the full amount of the tax increase. In any case, the potency of earmarking as a help in selling a tax increase is likely to wane over time as the public becomes more cynical about it. If many people are disillusioned by a recent experience with earmarking, they are much less likely to be swayed by it again.

Advocates should also be wary of the potential for a "war of the earmarks." If funds for a particular children's program are earmarked, with the result that spending is higher than it otherwise would be, this could come at the expense of other children's programs. Earmarking may result in a misallocation of resources, with the program benefiting from it receiving more resources than desirable. Also, proponents of other programs (such as transportation, environmental initiatives, and social services not for children) may fight for

[11] Even Proposition 98 has been undermined to some extent. In 1991, for example, a half-cent state sales tax increase for local health programs was dedicated to a special fund outside of the general fund. Proposition 98 applies only to general fund revenue.

earmarked revenues. To the extent they succeed, funding for education and other children's programs may suffer.

Local Earmarking

The preceding analysis of earmarking at the state level can also be applied when local taxes are earmarked. Florida provides for earmarking of the local property tax to fund county-wide special districts for children's services. In other places, taxes are sometimes earmarked to fund children's services provided by counties.

Whether local earmarking provides a sound basis for funding children's services depends on what tax is earmarked, how it is administered, the nature of the local economy, and how adequate funding would have been in the absence of earmarking. The property tax could provide a good revenue source if assessments are updated frequently, the tax base is expanding because of new construction and rising property values, and the permissible tax rate is sufficient to pay for an ample level of services. The sales tax is also a good revenue source, but a cigarette tax or real estate transfer tax would be much less desirable. Cigarette tax revenue does not grow much if at all over time, and the revenue from a real estate tax is relatively volatile.

Summary and Projection of Future Trends

The funding for children's programs may come from either general or earmarked sources. Most of it is from general taxes. Although most states dedicate some taxes to education programs, it is very unlikely that this earmarking has a significant effect on the share of resources going to schools at the margin.

Earmarking may have more potential as a device for increasing spending for children's programs other than education, particularly for programs that have relatively small budgets, both at the state and local levels. This potential will be realized only if the revenue source that is earmarked is one that produces substantial and steady revenue growth over time.

Although state and local tax revenue has kept up with the growth of the economy since 1970, the outlook for continued expansion of resources available for children's programs is not sanguine for two reasons:

(1) Revenue may grow more slowly in the future. Tax revolt forces have won a number of important victories in the 1990s, resulting in significant new constitutional barriers to future tax increases in a number of states.[36] In addition, public cynicism about the efficacy of government programs will make it more difficult to enact large tax increases. Meanwhile, the elasticity of the existing tax system appears to have

[36] Colorado, Oklahoma, and Washington have passed initiatives requiring a popular vote before state taxes can be increased. Arizona now requires a two-thirds legislative majority to increase state taxes, and Oregon cut the property tax rate from approximately 2.5% to 1.5%. Colorado's initiative also limited per capita spending increases to the rate of inflation.

fallen compared with the past, resulting in more sluggish responses to the expansion of the economy.

(2) Medicaid and corrections programs appear likely to continue to expand their share of state budgets, leaving less for all other programs.

These developments do not necessarily imply that achieving better funding of children's programs is impossible, but they do lead to the conclusion that the public will support spending initiatives only if it believes that programs will be effective. Thus, the potential for increasing revenue is inextricably linked to how well programs operate. In the school arena this means that the education system has to be restructured in fundamental ways. For other children's programs, the need to show positive results is paramount.

It is sometimes argued that state and local governments are unable to raise taxes to increase spending because tax burdens are already so high. That is a political judgment. Relative to personal income, state and local taxes in most states are no higher than they were in 1973.[37] It is true that intergovernmental competition constrains the ability to increase taxes, which makes it desirable for state and local governments to receive more federal aid.

HIGH PRIORITY RESEARCH TO FILL INFORMATION GAPS

Finally, we conclude by identifying areas for further inquiry. The questions which should be addressed are:

(1) How much is being spent on state-local children's programs other than education, and how have budgets grown over time?

(2) How much of this spending is for preventive programs as opposed to programs that merely ameliorate problems?

(3) How is earmarking used for children's programs other than education?

(4) How successful has earmarking been in producing substantial revenue gains for children's programs? What kinds of earmarking provisions are effective and which are ineffective?

(5) What mechanisms do states use to assist local children's programs other than schools? (The formulas used can have significant effects on the equity of the distribution of services and on incentives to provide particular kinds of services.)

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[37] Steven D. Gold, "Changes in State and Local Tax Systems over the Past 20 Years," *State Tax Notes* (January 4, 1993), pp. 39-45.

TABLE 1 Composition of School Revenue, 1977-1978 to 1993-1994

School year	Federal (%)	State (%)	Local & other (%)
1993-1994	7.0	45.7	47.3
1992-1993	6.9	46.8	46.3
1991-1992	6.7	47.5	45.8
1990-1991	6.3	48.2	45.5
1989-1990	6.3	48.3	45.4
1988-1989	6.4	48.5	45.1
1987-1988	6.4	49.3	44.3
1986-1987	6.4	49.8	43.8
1985-1986	6.7	49.4	43.9
1984-1985	6.8	49.0	44.2
1983-1984	7.0	47.8	45.2
1982-1983	7.2	47.7	45.1
1981-1982	7.4	47.9	44.7
1980-1981	8.7	48.2	43.1
1979-1980	9.2	49.1	41.7
1978-1979	8.8	47.3	43.9
1977-1978	8.8	44.3	46.9

Note: The 1993-1994 estimates are preliminary and may be subject to relatively large revisions.

Source: National Education Association, *Estimates of School Statistics*, 1993-1994 and 1987-1988 editions.

TABLE 2 Level and Composition of School Revenue, 1991-1992

	School Revenue Per Pupil ($)	Total Revnue Including Federal Aid (%)			Total Revenue Excluding Federal Aid (%)	
		Federal	State	Local	State	Local
United States	**5583**	**6.6**	**47.3**	**46.0**	**50.7**	**49.3**
New England	**6779**	**5.0**	**34.9**	**60.1**	**36.8**	**63.2**
Connecticut	8368	3.9	40.4	55.7	42.0	58.0
Maine	5655	7.0	49.8	43.3	53.5	46.5
Massachusetts	6373	5.8	32.2	62.1	34.2	65.8
New Hampshire	5989	2.9	8.2	88.9	8.4	91.6
Rhode Island	6392	5.4	39.8	54.8	42.1	57.9
Vermont	6881	5.5	32.9	61.6	34.8	65.2
Mid Atlantic	**7925**	**4.8**	**42.1**	**53.1**	**44.2**	**55.8**
Delaware	6128	8.8	67.1	24.1	73.6	26.4
Maryland	6165	5.5	39.9	54.6	42.2	57.8
New Jersey	9302	3.4	42.9	53.8	44.3	55.7
New York	8248	5.1	39.9	54.9	42.1	57.9
Pennsylvania	7392	4.9	44.8	50.3	47.1	52.9
Great Lakes	**5633**	**5.9**	**37.9**	**56.2**	**40.3**	**59.7**
Illinois	5344	7.7	34.8	57.5	37.7	62.3
Indiana	5734	4.9	53.3	41.9	56.0	44.0
Michigan	5850	5.8	26.8	67.5	28.4	71.6
Ohio	5451	5.7	42.1	52.2	44.7	55.3
Wisconsin	6142	4.3	39.9	55.8	41.7	58.3
Plains	**5074**	**6.0**	**43.6**	**50.4**	**46.4**	**53.6**
Iowa	4846	5.7	50.3	44.0	53.4	46.6
Kansas	5107	5.1	42.9	52.0	45.2	54.8
Minnesota	5764	5.0	50.8	44.1	53.5	46.5
Missouri	4850	6.3	37.4	56.2	40.0	60.0
Nebraska	4736	6.2	34.6	59.2	36.9	63.1
North Dakota	4675	10.5	43.5	46.0	48.6	51.4
South Dakota	4269	11.3	26.4	62.2	29.8	70.2
Southeast	**4748**	**8.4**	**53.0**	**38.6**	**57.8**	**42.2**
Alabama	3472	13.3	65.6	21.0	75.8	24.2
Arkansas	4031	9.6	61.8	28.6	68.3	31.7
Florida	5599	7.3	48.4	44.3	52.2	47.8
Georgia	5123	6.8	53.3	39.9	57.2	42.8
Kentucky	4777	9.8	68.6	21.6	76.0	24.0
Louisiana	4308	10.9	55.5	33.6	62.3	37.7
Mississippi	3488	17.2	52.6	30.2	63.6	36.4
North Carolina	5085	6.6	65.1	28.3	69.7	30.3
South Carolina	4786	8.7	48.2	43.1	52.8	47.2
Tennessee	3492	10.5	44.4	45.1	49.6	50.4
Virginia	5284	4.9	33.2	61.9	34.9	65.1
West Virginia	5449	7.8	67.1	25.1	72.7	27.3
Southwest	**4747**	**8.4**	**47.6**	**44.0**	**52.0**	**48.0**
Arizona	4837	9.4	42.9	47.7	47.3	52.7
New Mexico	4638	12.4	74.3	13.3	84.8	15.2
Oklahoma	4092	8.3	63.6	28.1	69.3	30.7
Texas	4851	7.9	44.1	48.0	47.9	52.1
Rocky Mountain	**4457**	**5.9**	**49.1**	**45.0**	**52.2**	**47.8**
Colorado	5120	4.6	39.5	56.0	41.3	58.7
Idaho	3823	8.1	62.1	29.8	67.6	32.4
Montana	4912	8.5	56.3	35.2	61.5	38.5
Utah	3343	6.4	57.1	36.4	61.1	38.9
Wyoming	6315	5.0	49.9	45.1	52.5	47.5
Far West	**5360**	**7.5**	**62.4**	**30.1**	**67.5**	**32.5**
California	5179	8.0	63.6	28.4	69.2	30.8
Nevada	5298	4.2	38.7	57.2	40.3	59.7
Oregon	5840	6.1	30.8	63.1	32.8	67.2
Washington	5662	5.3	73.6	21.0	77.8	22.2
Alaska	7871	12.6	63.6	23.8	72.8	27.2
Hawaii	6138	7.0	91.2	1.8	98.0	2.0

Source: National Education Association, 1992-1993 Estimates of School Statistics (Washington, DC: 1992).

TABLE 3 Federal Spending on Children ($ in billions)

	Sugarman FY93	Sugarman FY95	Green Book FY90	Green Book FY95
Education				
Compensatory Education	6.8	7.6	4.5	6.9
Special Education	3.0	3.3		
Impact Aid	0.8	0.8	0.8	0.8
Handicapped			1.6	3.0
School Improvement	1.5	1.7		
Bilingual/Immigrant Education	0.2	0.2		
Financail Assistance	7.9	7.9		
Family Education Loans	2.8	1.9		
Education Research and Improvement	0.3	0.3		
Exclusion of Scholarship Income*	0.8	0.9		
Other			1.4	3.6
Total Education	24.1	24.6	8.3	14.3
Income Support and Employment Assistance				
AFDC	12.2	12.6	7.0	9.4
Emergency Assistance	0.2	0.7		
EITC (2)			6.0	14.7
Social Security			8.9	11.4
SSI			1.1	4.2
Veteran's Compensation			0.5	0.5
Child Support Enforcement	0.8	1.0	0.5	1.0
Summer Youth Employment and Training	0.8	0.9	0.7	0.7
Youth Training	0.7	0.6		
Total income Support	14.7	15.8	24.7	41.9
Health				
Medicaid (3)	14.9	18.5	7.2	16.9
Medicare			0.1	0.2
Maternal and Child Health	0.7	0.7	0.6	0.7
Immunization			0.2	0.4
Vaccine Injury Compensation	0.1	0.1		
Family Planning	0.2	0.2		
Mental Health	0.1	0.1		
Substance Abuse Prevention	0.2	0.2		
Substance Abuse Treatment	0.2	0.2		
Block Grant to States	1.4	1.8		
Child Health Insurance Tax Credit*	0.1	0.0	0.0	0.6
Deductibility of Medical Expenses*	3.0	3.6		
Exclusion of Employment Contribution to Expenses and Premiums (4)*	46.9	56.3		
Other Health (5)			0.4	0.6
Total Health	67.8	81.7	8.5	19.4
Nutrition				
Food Stamps (6)	27.1	27.7	7.3	11.2
WIC (7)	2.9	3.6		
Child Nutrition (7)	6.8	7.4	7.1	10.3
Total Nutrition	36.8	38.7	14.4	21.5

Child Care/Child Development				
AFDC JOBS	0.5	0.6		
AFDC Transitional	0.1	0.2		
At-Risk Child Care	0.3	0.3		
Head Start (8)	2.8	4.0		
Child Care Development Block Grant	0.9	1.1		
Dependent Care Tax Credit*	2.5	2.8	2.4	2.9
Exclusion of Employee Provided Child Care*	0.6	0.7		
Child Care (9)			0.1	2.3
Total Child Care/Development	7.7	9.7	2.5	5.2
Child Welfare				
Foster Care	2.5	3.0		
Adoption Assistance	0.3	0.4		
Family Preservation	0.0	0.1		
Total Child Welfare	2.8	3.5	1.6	3.5
Juvenile Justice	0.1	0.1	0.1	0.1
Housing Assistance			7.5	9.7
Housing Assistance (4)			0.6	0.7
Low-Income Home Energy Assistance			8.1	10.4
Total Housing Assistance				
Other				
Human Development (10)			1.8	3.3
Social Services Block Grant	2.1	2.1		
Child and Family Service Programs	0.9	0.9		
Total Other	3.0	3.0	1.8	3.3
TOTAL	**$157.0**	**$177.1**	**$70.0**	**$119.6**
TOTAL less nonprorated items (12)	**$78.1**	**$87.2**	**$61.9**	**$109.2**

NOTES:

* Indicates that the item is a tax expenditure.

(1) For Sugarman, spending is expressed as obligations. The Green Book gives outlays.

(2) EITC spending in the Green Book includes cash payments and tax credits.

(3) Sugarman assumes 20.1% of Medicaid dollars are spent on children. The Green Book does not include administration costs.

(4) Includes adult share.

(5) In the Green Book, "Other Health" includes programs run by the Health Resources and Services Administration including healthy start, perinatal facilities, pediatric EMS, family planning, and portions of community and migrant health centers, national health service corp, and health care for the homeless.

(6) Includes adult share in Sugarman but is prorated for children in the Green Book.

(7) For the Green Book, child nutrition includes WIC.

(8) The Green Book includes Head Start in its "Human Development" category. See Other.

(9) The Green Book has a "Child Care" category that includes AFDC JOBS, AFDC transitional, and at-risk child care as well as the Child Care Development Block Grant.

(10) In the Geen Book, "Human Development" includes spending on Head Start, child abuse and family violence, runaway and homeless youth, and development disabilities.

(11) Sugarman derives this estimate by assuming 75 percent of the Social Service Block Grant is spent on children.

(12) For Sugarman. nonprorated items include mental health, substance abuse prevention and treatment, block grant to states, deductibility of medical expenses, exclusion of employer contribution to medical expenses, and food stamps. For the Green Book, only housing is excluded.

TABLE 4 State Spending on Children in California and Kentucky, FY1993 ($ millions)

	California	Kentucky
Education	20,663	1,659
Nutrition	52	4
Income Support and Employment Assistance	2,942	60
Child Care and Development	486	79
Health	1,096	114
Child Welfare	569	46
Juvenile Justice	351	24
Total	**26,159**	**1,986**
Total per capita	**838**	**518**
Total per child*	**3,044**	**2,021**

* Indicates children up to the age of 17.

TABLE 5 State/Local Revenue from Major Taxes per $100 of Personal Income, 1991

	Personal Income ($)	Rank	Sales ($)	Rank	Property ($)	Rank	Total ($)	Rank
Total	**2.36**		**2.71**		**3.62**		**11.33**	
Alabama	*2.04*	33	2.78	22	*1.16*	50	9.26	48
Alaska	*0.00*	46	*0.67*	46	6.04	2	21.97	1
Arizona	*2.09**	32	4.11	5	4.17	14	12.64	7
Arkansas	2.41	25	3.14*	15	*1.74*	46	9.60	46
California	2.73*	16	2.92	18	*3.15*	29	11.24	22
Colorado	2.37*	26	2.80	21	3.76	21	10.69	31
Connecticut	*0.57**	41	2.90^	19	4.46	12	10.45	36
Delaware	3.54	8	*0.00*	49	*1.54*	49	10.31	40
Florida	*0.00*	48	3.39	11	3.75	22	10.00	44
Georgia	2.66	18	3.16	14	*3.03*	32	10.75	29
Hawaii	3.81	5	5.59	2	*2.14*	41	14.22	3
Idaho	2.92	13	*2.65*	27	*2.90*	34	10.91	27
Illinois	*1.95*	35	*2.33*	35	3.90	18	10.58	33
Indiana	2.67	17	2.72	24	*3.43*	25	10.46	35
Iowa	2.87	14	*2.14**	38	4.09	16	11.59	17
Kansas	*2.00**	34	2.57*	29	3.92	17	10.93	25
Kentucky	3.71*	6	*2.35*	34	*1.86*	45	11.63	16
Louisiana	*1.34*	39	4.45	4	*1.95*	44	11.70	14
Maine	2.75	15	*2.36**	33	4.66	10	11.90	13
Maryland	4.13*	2	*1.47**	43	*2.86*	35	10.59	32
Massachusetts	3.94^	4	*1.41*	44	3.67	23	10.92	26
Michigan	2.45	23	*1.87*	41	4.91	8	11.58	18
Minnesota	3.63*	7	*2.41*	30	3.88	19	12.68	6
Mississippi	*1.47**	38	3.43*	10	*2.73*	37	10.34	38
Missouri	2.30*	29	2.85	20	*2.19*	40	9.27	47
Montana	2.42*	24	*0.00*	48	3.61	24	10.13	42
Nebraska	*2.22**	31	2.66	26	4.35	13	11.44	19
Nevada	*0.00*	49	3.46*	9	*2.43*	38	10.35	37
New Hampshire	*0.16*	42	*0.00*	50	6.35	1	9.07	49
New Jersey	*1.74**	36	*2.08^*	39	5.01	6	11.08	24
New Mexico	*1.73*	37	5.34	3	*1.61*	48	12.48	8
New York	4.36	1	2.76	23	5.01	7	15.18	2
North Carolina	3.24*	10	*2.28**	36	*2.36*	39	10.33	39
North Dakota	*1.19*	40	2.61	28	*3.33*	27	11.44	20
Ohio	3.23*	11	*2.20**	37	*3.13*	30	10.71	30
Oklahoma	2.56*	22	3.20	13	*1.67*	47	11.14	23

South Carolina	2.63	20	2.72	25	***2.85***	36	10.52	34
South Dakota	***0.00***	44	3.12	16	3.77	20	9.69	45
Tennessee	***0.13***	43	4.00*	6	***2.10***	42	9.00	50
Texas	***0.00***	45	3.57	8	4.17	15	10.78	28
Utah	2.95	12	3.71	7	***3.04***	31	11.67	15
Vermont	2.58	21	***1.26***	45	5.26	4	12.05	10
Virginia	2.64	19	***1.67***	42	***3.27***	28	10.05	43
Washington	***0.00***	47	5.92	1	***3.41***	26	12.21	9
West Virginia	2.35	28	3.33	12	***2.00***	43	11.97	12
Wisconsin	3.50	9	***2.40***	31	4.61	11	12.87	5
Wyoming	***0.00***	50	2.97*	17	5.64	3	13.94	4

* Indicates tax increase since fiscal 1991
^ Indicates tax decrease since fiscal 1991
Boldface and italic indicates below national average

SOURCES: Tax revenue: U.S. Census Bureau, *State Government Finances in 1991*.
Personal income: unpublished data from the U.S. Bureau of Economic Anaylsis (September 2, 1992).

TABLE 6 State Tax and Lottery Revenue Per $100 of Personal Income, 1980 and 1992

Tax	1980	1992
Total Taxes	***$6.79***	***$6.84***
General sales	2.14	2.24
Personal income	1.84	2.18
Motor Fuel	0.48	0.46
Corporate income	0.66	0.45
Motor vehicle licenses	0.24	0.22
Insurance	0.15	0.16
Public utilities	0.17	0.16
Property	0.14	0.14
Tobacco	0.19	0.13
Severance	0.21	0.10
Death and gift	0.10	0.09
Corporation licenses	0.07	0.09
Alcoholic beverages	0.12	0.07
Document transfers	0.04	0.04
Parimutuels	0.04	0.01
Other licenses	0.12	0.14
Other	0.08	0.16
Lotteries	***0.15***	***0.16***

Note: Personal income excludes District of Columbia.

Source: U. S. Census Bureau, *State Government Finances in (year)*; personal income provided by U. S. Bureau of Economic Analysis, estimates as of September 2, 1992.

TABLE 7 State and Local Tax Revenue Per $100 of Personal Income, 1970 to 1992

Fiscal Year	Total	Local	State	State				
				General Sales	Personal Sales	Corporation Income	Severence	Other
1992	$11.54	$4.72	$6.84	$2.24	$2.18	$0.45	$0.1.	$1.87
1991	11.30	4.62	6.70	2.23	2.14	0.44	0.12	1.77
1990	11.47	4.59	6.90	2.29	2.21	0.50	0.11	1.79
1989	11.55	4.55	7.02	2.31	2.20	0.59	0.10	1.83
1988	11.60	4.57	7.05	2.32	2.13	0.58	0.12	1.85
1987	11.48	4.48	7.02	2.26	2.16	0.59	0.12	1.89
1986	11.24	4.37	6.89	2.26	2.04	0.55	0.19	1.85
1985	11.28	4.34	6.97	2.25	2.06	0.57	0.23	1.86
1984	11.30	4.35	6.96	2.21	2.09	0.55	0.26	1.85
1983	10.68	4.25	6.46	2.02	1.88	0.50	0.28	1.78
1982	10.59	4.12	6.49	2.01	1.82	0.56	0.31	1.79
1981	10.85	4.20	6.67	2.07	1.82	0.63	0.28	1.87
1980	11.02	4.26	6.79	2.14	1.84	0.66	0.21	1.90
1979	11.37	4.46	6.94	2.19	1.81	0.67	0.16	2.11
1978	12.08	5.01	7.10	2.21	1.82	0.67	0.16	2.22
1977	12.15	5.17	7.02	2.14	1.77	0.64	0.15	2.32
1976	11.98	5.17	6.85	2.10	1.65	0.56	0.16	2.38
1975	11.74	5.09	6.68	2.07	1.57	0.55	0.15	2.34
1974	11.93	5.16	6.81	2.07	1.57	0.55	0.11	2.51
1973	12.41	5.43	7.01	2.04	1.60	0.56	0.09	2.72
1972	12.24	5.51	6.77	1.99	1.47	0.50	0.09	2.72
1971	11.50	5.26	6.27	1.88	1.24	0.42	0.09	2.64
1970	11.32	5.07	6.29	1.86	1.20	0.49	0.09	2.65

Note: Revenue for each fiscal year is divided by personal income for the calendar year that ended during that fiscal year. State and local taxes do not equal total tax revenue because personal income for the District of Columbia is included in calculating total and local tax revenue per $100 of personal income but not in calculations for state taxes.

Sources: Tax revenue: U.S. Census Bureau, *Governmental Finances* (Washington, D.C.: U.S. Government Printing Office, various years). Personal income: Unpublished data from the U. S. Department of Commerce with revised estimates as of September 2, 1992.

THE FINANCE PROJECT

The Finance Project is a national initiative to improve the effectiveness, efficiency, and equity of public financing for education and other children's services. With leadership and support from a consortium of private foundations, The Finance Project was established as an independent nonprofit organization, located in Washington, DC. Over a three-year period that began in January 1994, the project is undertaking an ambitious array of policy research and development activities, as well as policymaker forums and public education activities.

Specific activities are aimed at increasing knowledge and strengthening the nation's capability to implement promising strategies for generating public resources and improving public investments in children and their families, including:

- examining the ways in which governments at all levels finance public education and other supports and services for children (age 0-18) and their families;
- identifying and highlighting structural and regulatory barriers that impede the effectiveness of programs, institutions, and services, as well as other public investments, aimed at creating and sustaining the conditions and opportunities for children's successful growth and development;
- outlining the nature and characteristics of financing strategies and related structural and administrative arrangements that are important to support improvements in education and other children's services;
- identifying promising approaches for implementing these financing strategies at the federal, state and local levels and assessing their costs, benefits, and feasibility;
- highlighting the necessary steps and cost requirements of converting to new financing strategies; and
- strengthening intellectual, technical, and political capability to initiate major long-term reform and restructuring of public financing systems, as well as interim steps to overcome inefficiencies and inequities within current systems.

The Finance Project is expected to extend the work of many other organizations and blue-ribbon groups that have presented bold agendas for improving supports and services for children and families. It is creating the vision for a more rational approach to generating and investing public resources in education and other children's services. It is also developing policy options and tools to actively foster positive change through broad-based systemic reform, as well as more incremental steps to improve current financing systems.

RESOURCES FROM THE FINANCE PROJECT

Working Papers:

Reform Options for the Intergovernmental Funding System: Decategorization Policy Issues by Sid Gardner (December 1994)

School Finance Litigation: A Review of Key Cases by Dore Van Slyke, Alexandra Tan and Martin Orland, with assistance from Anna Danegger (December 1994)

Spending and Revenue for Children's Programs by Steven D. Gold and Deborah Ellwood (December 1994)

The Role of Finance Reform in Comprehensive Service Initiatives by Ira M. Cutler (December 1994)

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Federal Funding for Children and Families: An Analysis of Trends and Patterns by Cheryl D. Hayes, Anna Danegger, and Elise Lipoff (Spring 1995)

Federal Funding for Education and Other Children's Services: Congressional Decisionmaking and the Budget Enforcement Act by Shirley Ruhe (Spring 1995)

Rethinking Block Grants: Toward Improved Intergovernmental Financing for Education and Other Children's Services by Cheryl D. Hayes, with assistance from Anna Danegger (Spring 1995)

Fiscal Capacity and Investments in Education and Other Programs for Children and Families: 50 State-by-State Trends and Projections by Steven D. Gold and Deborah Ellwood (Spring 1995)

Financing Early Care and Education: Meeting the Challenges Ahead by Cheryl D. Hayes and Sharon L. Kagan (Spring 1995)

Financing Comprehensive Services: Cases Studies of State Innovations by Ira M. Cutler, Ann Segal, and Alexandra Tan (Spring 1995)

Comprehensive Service Initiatives: A Compendium of Innovative Programs by Elise Lipoff and Anna Danegger (Spring 1995)